

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mancelona Area Water & Sewer Authority	County Antrim
Fiscal Year End 12/31/06	Opinion Date 4/11/07	Date Audit Report Submitted to State 6/5/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).




**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) J L Stephan Co, PC		Telephone Number (231) 941-7600	
Street Address 862 E. Eighth St.		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Jerry L. Stephan	License Number 1101010359	

**Mancelona Area Water  
and Sewer Authority**

*Antrim County Michigan  
Audited Financial Statements*

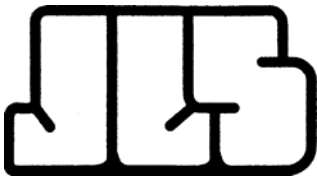
*For the Year Ended December 31, 2006*

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FINANCIAL SECTION



# **J L Stephan Co PC**

## **Certified Public Accountants**

Jerry L. Stephan, CPA

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Marty K. Szasz-Busby, CPA  
David Skibowski, Jr., CPA  
Christopher H. Cornell, CPA

### **INDEPENDENT AUDITOR'S REPORT**

Mancelona Area Water and Sewer Authority  
PO Box 940  
Mancelona, MI 49659

We have audited the accompanying financial statements of the business-type activities of the Mancelona Area Water and Sewer Authority as of and for the year ended December 31, 2006 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of December 31, 2006 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

April 11, 2007

**Mancelona Area Water and Sewer Authority***Exhibit A*

*Proprietary Fund  
Statement of Net Assets  
December 31, 2006*

	<u>Water System</u>
<b>Assets</b>	
<i>Current Assets</i>	
Cash-Unrestricted	\$ 114,884
Cash on Hand	300
Accounts Receivable	102,161
<i>Total Current Assets</i>	<u>217,345</u>
<i>Non-current Assets</i>	
Cash-Restricted	231,418
Special Assessment Receivable - Principal	3,421,505
Special Assessment Receivable - Interest	111,104
Capital Assets - net	9,298,001
Start Up & Bond Costs - net	124,936
<i>Total Non-current Assets</i>	<u>13,186,964</u>
 <i>Total Assets</i>	 <u>13,404,309</u>
 <b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	6,861
Current Portion of Long-Term Liabilities	150,023
<i>Total Current Liabilities</i>	<u>156,884</u>
<i>Long-Term Liabilities</i>	
Capital Lease Payable - Truck	10,953
Capital Lease Payable - Meters	252,141
Bonds Payable	
2002 WaterSystem Supply Bonds	2,340,000
2006 Water System Supply Bonds	995,000
2006 Water System Supply Bonds - premium	8,835
Current Portion - Capital Leases	(30,023)
Current Portion - Bonds Payable	(120,000)
<i>Total Long-Term Liabilities</i>	<u>3,456,906</u>
 <i>Total Liabilities</i>	 <u>3,613,790</u>
 <b>Net Assets</b>	
Invested in Capital Assets - net of debt	5,954,166
Restricted for Construction	(3,280)
Restricted for Capital Improvements	30,272
Restricted for Debt Payment	204,427
Unrestricted	3,604,934
 <i>Total Net Assets</i>	 <u><u>\$ 9,790,519</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit B*

*Proprietary Fund  
Statement of Revenue, Expenses  
and Changes in Net Assets  
For the Year Ended December 31, 2006*

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	<i>Water System</i>
<b>Operating Revenues</b>	
Water Sales	\$ 506,133
Other Charges and Fees	78,118
<i>Total Operating Revenues</i>	<u>584,251</u>
<b>Operating Expenses</b>	
Operating Supplies	15,701
Office Supplies	4,958
Contractual Services	
Administration & Engineering	226,209
System Operation	44,035
Professional Fees	18,284
Communications	10,208
Vehicle	6,306
Printing & Publishing	1,468
Dues & Fees	4,397
Software Support	2,174
Insurance	11,374
Utilities	51,012
Repairs & Maintenance	96,090
Rentals	7,645
Miscellaneous	199
Deferred Charge - Depreciation	259,354
Deferred Charge - Amortization	32,151
<i>Total Operating Expenses</i>	<u>791,565</u>
<i>Operating Income (Loss)</i>	<u>(207,314)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Special Assessment Interest Revenue	129,308
Bank Interest Earned	15,814
Bond Fees	(26,057)
Other Special Assessment and Bond Costs	(3,132)
Interest Expense - Leases	(15,100)
Interest Expense - Bonds	(103,586)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(2,753)</u>
<i>Income (Loss) before Capital Contributions and Transfers</i>	<u>(210,067)</u>
Special Assessment	1,260,000
Capital Contributions	5,670
<i>Change in Net Assets</i>	<u>1,055,603</u>
Net Assets - Beginning of Year	<u>8,734,916</u>
 Net Assets - End of Year	 <u><u>\$ 9,790,519</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit C**Proprietary Fund**Statement of Cash Flows**For the Year Ended December 31, 2006*

	<u>Water System</u>
<b><i>Cash Flows from Operating Activities</i></b>	
Water Sales	\$ 483,194
Other Charges and Fees	78,118
Operating Expenses	<u>(532,785)</u>
<i>Net Cash Provided by/(Used in) Operating Activities</i>	28,527
<b><i>Cash Flows from Capital &amp; Related Financing Activities</i></b>	
Capital Contributions - MDEQ	5,670
Net Proceeds from Bond Issuance	982,563
Special Assessments Receivable - Principal	176,251
Water System Acquisitions and/or Construction Costs	(1,000,208)
Bond Issuance Costs	(33,277)
Bond Principal Payments	(115,000)
Capital Lease Payments	(28,452)
Escrow Payable	(1,172)
Interest Expense - Leases	(15,100)
Interest Expense - Bonds	(103,586)
Bond Fees	(26,057)
Other Special Assessment and Bond Costs	<u>(3,132)</u>
<i>Net Cash Provided by/(Used in) Financing activities</i>	(161,500)
<b><i>Cash Provided from Investing Activities</i></b>	
Interest - Bank	15,814
Interest - Special Assessment	<u>116,271</u>
<i>Net Cash Provided by/(Used in) Investing Activities</i>	<u>132,085</u>
<b><i>Net Increase(Decrease) in Cash</i></b>	(888)
<i>Cash and Cash Equivalents -</i>	
Beginning of Year	<u>347,490</u>
<b><i>Cash and Cash Equivalents - End of Year</i></b>	<u><u>\$ 346,602</u></u>

*The Notes to Financial Statements are an integral part of this statement*



**Mancelona Area Water and Sewer Authority***Exhibit C**Proprietary Fund**Statement of Cash Flows**For the Year Ended December 31, 2006*

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	<u>Water System</u>
<b><i>Reconciliation of Net Income to Net Cash</i></b>	
<b><i>Provided by/(Used in) Operating Activities</i></b>	
Net Operating Income (Loss)	\$ (207,314)
<i>Adjustments to reconcile change in income to net cash provided by operating activities:</i>	
Depreciation	259,354
Amortization	32,151
<i>Changes in operating assets and liabilities which provided/(used) cash:</i>	
Water System Accounts Receivable	(22,939)
Due from Other Units	196
Accounts Payable	<u>(32,921)</u>
<b><i>Net Cash Provided by/(Used in) Operating Activities</i></b>	<b><u>\$ 28,527</u></b>

*The Notes to Financial Statements are an integral part of this statement*

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2006

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Mancelona Area Water & Sewer Authority have been prepared in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

#### A. Reporting Entity

A Board of Trustees consisting of members from Custer and Mancelona Townships organized the Mancelona Area Water Authority in March of 2000. In 2001, the Village of Mancelona joined the authority. Each local governmental unit member has representation within the Authority. The mission of the Mancelona Area Water and Sewer Authority (MAWSA) is to provide safe water in order to protect public health and the local economy in response to local groundwater contamination.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, no required organizations have been omitted from these financial statements.

#### B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The authority is a single purpose governmental unit and reports all of its activities in the following major proprietary fund:

*Enterprise Funds* - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Water Fund is operated with the intention that the cost of providing water services to the public will be financed or recovered primarily through charges to users.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tap fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2006

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

#### C. Assets, Liabilities, and Net Assets or Equity

*Bank Deposits and Investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*Accounts Receivable* - Accounts Receivable are recorded in the Water Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer. The County purchases any amounts not collected by the Authority.

*Capital Assets* – Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation and amortization are computed by the straight-line method. The Authority records depreciation and amortization in its Water Fund. Estimated useful lives for depreciable and amortizable assets are as follows:

Water System	40 years
Bond Issue Costs	20 years
Start up Costs	5 years
General Equipment	5-7 years

In 2005, the Authority reviewed the estimated lives of its water system assets. It was determined 40 years was more appropriate estimated useful life for these assets. Prior depreciation was based on an estimated life of 25 years. Current depreciation is based on a 40 year life and no adjustment was made to prior depreciation.

*Long-Term Obligations* - In the proprietary fund statement, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net assets. Bonds payable are reported net the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

A budget is adopted for operational purposes of the Water Fund on an annual basis. However, budgets are not required for either Debt Service or Proprietary Funds. Consequently, no budgetary information is provided with these financial statements.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2006

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### NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

#### A. Legal or Contractual Provisions for Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit has designated one bank for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as outlined above.

The Local Governmental Unit's deposits and investment policy are in accordance with the statutory authority.

#### B. Types of Deposits and Investments

At year-end, the Local Unit's cash deposits and cash equivalents were reported in the basic financial statements in the following categories:

	<i>Business-Type Activities</i>
Cash & Cash Equivalents	\$ 114,884
Investments	-
Restricted Assets	<u>231,418</u>
Total	<u>\$ 346,302</u>

The breakdown between deposits and investments are as follows:

	<i>Primary Government</i>
Bank Deposits (checking and savings)	\$ 346,302
Investments	-
Cash on Hand	<u>300</u>
Total	<u>\$ 346,602</u>

FDIC insurance coverage of \$100,000 per deposit applies separately to the demand and time deposits of a public unit. At December 31, 2006 the total deposits of the Authority amount to \$346,302 of which \$200,000 is covered by FDIC insurance.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2006

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### NOTE 4 - SUMMARY OF CAPITAL ASSETS

Long-Term Assets in the Water Fund as of December 31, 2006, are summarized as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deletions</i>	<i>Ending Balance</i>
Custer TWP/Cedar River System	\$ 3,259,810	\$ -	\$ -	\$ 3,259,810
MDEQ System	5,260,621	5,570	-	5,266,191
Mancelona TWP System	110,710	-	-	110,710
Village of Mancelona System	1,027,762	-	-	1,027,762
Hawk's Eye System	-	994,638	-	994,638
General Equipment	<u>26,896</u>	<u>-</u>	<u>-</u>	<u>26,896</u>
 Total Capital Assets	 9,685,799	 1,000,208	 -	 10,689,007
Depreciation	<u>(1,128,652)</u>	<u>(259,354)</u>	<u>-</u>	<u>(1,388,006)</u>
 <i>Net Capital Assets</i>	 <u><u>\$ 8,557,147</u></u>	 <u><u>\$ 740,854</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 9,298,001</u></u>
 Start Up Costs	 133,902	 -	 -	 133,902
Bond Issue Costs	<u>75,597</u>	<u>54,549</u>	<u>-</u>	<u>130,146</u>
 Total Start Up & Bond Costs	 209,499	 54,549	 -	 264,048
Amortization	<u>(106,961)</u>	<u>(32,151)</u>	<u>-</u>	<u>(139,112)</u>
 <i>Net Start Up &amp; Bond Costs</i>	 <u><u>\$ 102,538</u></u>	 <u><u>\$ 22,398</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 124,936</u></u>

### NOTE 5 – SPECIAL ASSESSMENTS RECEIVABLE

The Authority issued \$2,770,000 of "Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002" in April 2002 to pay for the acquisition and construction costs of water systems in Custer and Kearney Townships. A special assessment was levied on properties in those townships to service the bonds as they come due. This assessment is billed with the winter tax cycle.

In May 2006, the Authority issued \$995,000 of "2006 Water Supply Revenue Bonds" to pay for construction costs of adding the Hawk's Eye Golf Club development to the water system. A special assessment was levied on those properties located in Kearny Township to service the bonds as they come due and an additional \$265,000 for construction costs. The total special assessment levied on the Hawk's Eye development is \$1,260,000 and is billed with the summer tax cycle.

The Authority is a special purpose governmental unit engaging in a single purpose activity and, in accordance with GASB Statement #6; the Authority recorded the special assessment receivable, principal portion equal to the amount of the bonds plus additional construction costs. As discussed above, a portion of the special assessment received each year is used to reduce the amount of bond principal. The balance of the special assessments receivable, principal portion at December 31, 2006 is \$2,216,184 and \$1,205,321 for the 2002 and 2006 special assessment levies respectively.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2006

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### NOTE 5 – SPECIAL ASSESSMENT RECEIVABLE – continued

Interest included on the 2006 tax roll for the 2002 levy was calculated using an interest rate of 4.745%.

The special assessments will be levied and recorded over a twenty year period according to the following as of December 31:

	<u>2002 Assessment</u>		<u>2006 Assessment</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 138,511	\$ 105,160	\$ 71,329	\$ 68,564
2008	138,511	98,586	63,004	64,955
2009	138,511	92,013	63,004	61,346
2010	138,511	85,441	63,004	57,737
2011	138,511	78,869	63,004	54,129
2012-2016	692,555	295,753	315,020	216,510
2017-2021	692,555	131,449	315,020	126,289
2022-2025	<u>138,519</u>	<u>6,566</u>	<u>251,936</u>	<u>36,072</u>
	<u>\$ 2,216,184</u>	<u>\$ 893,837</u>	<u>\$ 1,205,321</u>	<u>\$ 685,602</u>

Special assessment revenue recognized in 2006 includes the interest equal to the levy on the 2006 tax roll, which totaled \$129,308. The interest portion of the special assessments receivable at December 31, 2006 is \$105,160 and \$5,945 for the 2002 and 2006 levies respectively.

### NOTE 6 - LONG-TERM DEBT

#### Special Assessment Bonds

In April 2002, the Authority issued \$2,770,000 of "Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002" to pay for the acquisition and construction costs of water systems in Custer and Kearney Townships. The bonds are due in nineteen annual principal installments ranging from \$100,000 to \$200,000 beginning April 1, 2003. The bonds initially bear a variable interest rate of 1.55%. In December 2004, the Authority locked the interest at 3.29%

In May 2006, the Authority issued \$995,000 of "2006 Water Supply Revenue Bonds" to pay for construction costs of adding the Hawk's Eye Golf Club development to the water system. The bonds are due in nineteen annual principal installments ranging from \$50,000 to \$55,000 beginning May 1, 2008. The bonds bear an interest rate of 4.5%. The bonds were offered with a reoffering premium of \$8,835 that will be amortized on a percentage of principal payment basis over the term of the bonds as a reduction of interest costs.

Bond documents specify the debt service requirements are to be met using proceeds from special assessments described in Note 5. Special assessment proceeds and debt service payments are recorded in the proprietary fund as is the outstanding debt. Even though the bonds are titled revenue bonds, the revenue generated by the water systems is to be used only in the event of default. It is anticipated the special assessments will cover the debt requirements.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2006

### **NOTE 6 - LONG-TERM DEBT - continued**

The following is a summary of transactions that occurred in bonds payable during the year ended December 31, 2006:

	<i>Beginning Balance</i>	<i>Additions (Reductions)</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
2002 Revenue Bonds	\$ 2,455,000	\$ (115,000)	\$ 2,340,000	\$ 120,000
2006 Revenue Bonds	-	995,000	995,000	-
Totals	<u>\$ 2,455,000</u>	<u>\$ 880,000</u>	<u>\$ 3,335,000</u>	<u>\$ 120,000</u>

Amount required to amortize Special Assessment Bonds at December 31, 2006:

	<u>2002 Revenue Bonds</u>		<u>2006 Revenue Bonds</u>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2007	\$ 120,000	\$ 87,750	\$ -	\$ 45,225
2008	125,000	83,441	55,000	43,988
2009	130,000	78,382	55,000	41,512
2010	135,000	73,687	55,000	39,038
2011	135,000	68,625	55,000	36,562
2012-2016	770,000	262,418	275,000	145,688
2017-2021	925,000	106,625	250,000	86,612
2022-2027	-	-	250,000	29,312
	<u>\$ 2,340,000</u>	<u>\$ 760,928</u>	<u>\$ 995,000</u>	<u>\$ 467,937</u>

### **NOTE 7 - LEASING ARRANGEMENTS**

The Authority subleases its office space from Northwestern Michigan Community Health Agency. On January 1, 2004 the lease was renegotiated. The term is for 60 months with a beginning monthly payment of \$452.31 and an option for 3 five-year renewals. The lease can be adjusted annually for changes in prorated occupancy costs. Lease expense, which also includes prorated occupancy costs, was \$7,645 for the current year ended December 31.

In December 2003, the Authority entered in to a capital lease with Daimler Chrysler Services for a 2004 Dodge Truck. The lease calls for 60 monthly payments of \$495.60 including interest at 4.02% per annum. At the end of the lease, the Authority will own the truck.

In April 2005, the Authority entered in to a capital lease with ORIX Public Finance to pay for new meter installation and materials for the Village of Mancelona water system. The lease calls for 120 monthly payments of \$3,175 including interest at 5.508% per annum.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2006

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### NOTE 7 - LEASING ARRANGEMENTS – continued

The following is a summary of future minimum lease payments as of December 31, 2006.

	<i>Truck</i>	<i>Meter Installation</i>	<i>Office</i>
2007	\$ 5,947	\$ 38,100	\$ 5,428
2008	5,452	38,100	5,428
2009	-	38,100	-
2010	-	38,100	-
2011	-	38,100	-
2012-15	-	123,825	-
	<u>11,399</u>	<u>314,325</u>	<u>10,856</u>
Less: Interest	<u>446</u>	<u>62,184</u>	<u>-</u>
	<u>\$ 10,953</u>	<u>\$ 252,141</u>	<u>\$ 10,856</u>

### NOTE 9 - RISK MANAGEMENT

The Authority pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Authority carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE 10 – RELATED PARTY TRANSACTIONS

The Authority contracts with the following entities for operational or construction purposes. The entities perform administrative and/or management services for the Authority. The following is a summary of transactions with the related parties as of and for the year ended December 31, 2006:

	<i>Costs Incurred</i>	<i>Amount Payable</i>
Gourdie/Fraser & Associates	\$ 325,322	\$ -
Community Resource Development, Inc.	<u>54,278</u>	<u>5,124</u>
Total	<u>\$ 379,600</u>	<u>\$ 5,124</u>

The Authority's Treasurer is the branch manager and assistant vice president for the Mancelona National City Bank. The Authority maintains its bank accounts with National City Bank and the bank also services the debt of the Authority. In February 2006, a new, unrelated individual was instated as the Authority's Treasurer.

### NOTE 11 – COMMITMENTS AND SUBSEQUENT EVENTS

The Authority is also considering the construction of a sewer system in the Village of Mancelona. The construction is expected to be funded by various State and Federal grants and loans.



OTHER INFORMATION (UNAUDITED)

# **Mancelona Area Water and Sewer Authority**

## *Comments and Recommendations*

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In planning and performing our audit of the financial statements of Mancelona Area Water and Sewer Authority, for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

### Segregation of Duties

The office administrator performs duties such as billings, cash receipts, deposit preparation and bank reconciliations optimally performed by different individuals. We recognize the Authority is a small organization and it is difficult to segregate these duties. We noted an attempt to segregate some duties throughout the year and we commend the office management for their efforts. However, we consider the lack of regular oversight and review by individuals outside the processes noted above to be a significant deficiency in internal control. There appears to be inconsistent application of compensating controls. We recommend someone other than the administrator consistently prepare and make deposits and cross-reference those with the receipt tickets. This is a repeat comment from prior years.

# **Mancelona Area Water and Sewer Authority**

## *Comments and Recommendations*

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In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

### *Bank Reconciliation*

We noted not all bank reconciliations were completed on a monthly basis. The operating accounts appear to be reconciled monthly, however other accounts were not. Additionally, the bank reconciliations prepared only reconcile to the bank balance, not the checkbook or general ledger balances. Proper bank reconciliations include a listing of outstanding checks or withdrawals and deposits. These amounts are subtracted from, or added to, the bank balance. The resulting amount should reconcile with both the checkbook and general ledger balances. If an accounting system does not provide such detail, the reconciliation should be done manually to ensure agreement.

We discussed this issue noted above with office personnel and reiterated the importance of preparing a proper reconciliation. Subsequently, we found the cause of the lack of reconciliation detail to be a software issue. The accounting software had not been updated for a significant period. We recommend obtaining the most current version of the accounting software package.

This is a similar comment from prior years.

### *Closing Comments*

We are happy to discuss any of these recommendations and assist in their implementation. This report is intended solely for the information and use of the Mancelona Area Water and Sewer Authority, and others within the organization. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise regarding these statements or the conduct of our audit, please call us at your convenience.